

EXAMINATION REPORT
OF
BLACKBOARD SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
BLACKBOARD SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink, reading "Trinidad Navarro", is positioned above a horizontal line.

Trinidad Navarro
Insurance Commissioner

Dated this 24th day of June, 2022

TABLE OF CONTENTS

| | |
|-------------------------------------------------------------------------------------|----|
| SCOPE OF EXAMINATION..... | 1 |
| SUMMARY OF SIGNIFICANT FINDINGS | 3 |
| COMPANY HISTORY | 3 |
| CAPITALIZATION..... | 4 |
| GROSS PAID IN & CONTRIBUTED SURPLUS | 4 |
| DIVIDENDS..... | 5 |
| MANAGEMENT AND CONTROL | 5 |
| DIRECTORS | 5 |
| OFFICERS | 5 |
| CORPORATE RECORDS | 6 |
| INSURANCE HOLDING COMPANY SYSTEM | 6 |
| AGREEMENTS WITH AFFILIATES | 7 |
| TERRITORY AND PLAN OF OPERATION | 8 |
| REINSURANCE..... | 9 |
| FINANCIAL STATEMENTS | 10 |
| STATEMENT OF ASSETS | 11 |
| STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS..... | 12 |
| STATEMENT OF INCOME..... | 13 |
| RECONCILIATION OF CAPITAL AND SURPLUS..... | 14 |
| ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION | 15 |
| COMMENTS ON FINANCIAL STATEMENT ITEMS..... | 15 |
| SUBSEQUENT EVENTS | 16 |
| SUMMARY OF RECOMMENDATIONS | 17 |

May 26, 2022

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Certification No. 21.003, dated September 25, 2020, an examination has been made of the affairs, financial condition and management of

BLACKBOARD SPECIALTY INSURANCE COMPANY

hereinafter referred to as BSIC or the Company. The Company is incorporated under the laws of the State of Delaware as a stock company with its registered office located at 251 Little Falls Drive, Wilmington, Delaware 19808. The administrative office of the Company is located at 1271 Avenue of the Americas, 37th Floor, New York, New York 10020-1304. The examination was conducted remotely given office closures and travel restrictions in connection with the COVID-19 pandemic. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination was conducted as of December 31, 2016, by the Delaware Department of Insurance (Department). This examination of the Company covers the period of January 1, 2017 through December 31, 2020. Our examination was coordinated with examination of certain of the

Company's affiliates and was performed concurrently with the Department's examination of the Company's wholly owned subsidiary. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Laws of the State of Delaware, as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers LLP (PwC). Certain work papers for PwC's 2020 audit of the Company have been incorporated into the work papers of the examiners. The work papers were utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

As reflected in the Company's 2020 statutory audit report issued by PwC, the Company identified corrections to its reported 2020 NAIC Annual Statement that resulted in after-tax statutory adjustments to decrease capital and surplus as regards policyholders in the amount of approximately \$104,000. The impact of these corrections on surplus, assets and liabilities as of December 31, 2020, are summarized in this examination report section – *Analysis of Changes in Financial Statements*.

COMPANY HISTORY

The Company was originally incorporated as Valiant Specialty Insurance Company under the laws of the State of Delaware on July 15, 2008, as a subsidiary of Valiant Insurance Company (VIC). At that time, VIC was a wholly owned subsidiary of Valiant Insurance Group (VIG), whose ultimate parent was Ariel Holdings, Ltd. (Ariel).

On November 5, 2010, First Mercury Financial Corporation's (FMFC) principal insurance subsidiary, First Mercury Insurance Company, purchased VIG from Ariel. On February 9, 2011, FMFC merged with a wholly owned indirect subsidiary of Fairfax Financial Holdings Limited (Fairfax), a Canadian financial service holding company with shares listed and publicly traded on the Toronto Stock Exchange. At this time, Fairfax became the Company's ultimate parent, and

the immediate parent of VIC became TIG Insurance Company (TIG), a property and casualty insurer domiciled in the State of California.

On October 6, 2014, VIC and the Company were purchased by Hamilton Insurance Group, Ltd. (HIG) and Hamilton U.S. Holdings, Inc. (HUS) became the immediate parent of VIC. On November 21, 2014, VIC's name was changed to Hamilton Insurance Company (HIC) and the Company's name was changed to Hamilton Specialty Insurance Company (HSIC). In 2015, the Department approved a quasi-reorganization whereby ownership of HIC was transferred to HSIC.

Pursuant to a Purchase and Sale Agreement dated July 8, 2017, American International Group, Inc. (AIG) acquired HUS. The transaction was approved by the Department on September 20, 2017. Around this time, HUS was renamed as Blackboard U.S. Holdings, Inc. (BUS), and the Company's name was changed from HSIC to BSIC. Additionally, the Company's wholly owned subsidiary was renamed from HIC to Blackboard Insurance Company (BIC).

Capitalization

The Company's Certificate of Incorporation authorizes the issue of 4.2 million shares of common stock with a par value of \$1.00 per share. As of December 31, 2020, the Company had 4.2 million common shares issued and outstanding totaling \$4.2 million. All outstanding common shares of the Company are owned by BUS. As of December 31, 2020, the Company reported gross paid in and contributed surplus of \$123.3 million.

Gross Paid in & Contributed Surplus

The Company received capital contributions from BUS during the examination period in the amounts of \$40.78 million, \$11 million, \$15 million and \$20 million for the years ended December 31, 2017, 2018, 2019 and 2020, respectively. In turn, the Company contributed capital to BIC in the amounts of \$30 million, \$15 million, \$22.6 million and \$15 million for the years

ended December 31, 2017, 2018, 2019 and 2020, respectively.

Dividends

No stockholder dividends were declared or paid during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the business and affairs of the Company must be managed by, or under the authority of, its Board of Directors (Board). The Company's bylaws require its Board consist of not less than four or more than eighteen individuals. Directors are elected annually by the stockholders and hold office until the next annual meeting of stockholders.

Directors duly elected and serving as of December 31, 2020, are as follows:

| <u>Name</u> | <u>Business Affiliation</u> |
|--------------------------|----------------------------------------------------------------------------------------------------|
| Salvatore Anthony Branca | Chief Operating Officer Blackboard U.S. Holdings, Inc. |
| Elias Farid Habayeb | Deputy Chief Financial Officer – AIG; and Chief Financial Officer – AIG General Insurance |
| Michael David Price | Senior Vice President – AIG; and Chief Executive Officer – AIG General Insurance, North America |
| Anthony Vidovich | Senior Vice President – AIG; and Chief Claims Officer – AIG General Insurance |

Officers

Officers were appointed in accordance with the Company's bylaws during the period under examination. The bylaws require appointment of a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer. At its discretion, the Board may appoint a

Chairman of the Board and a Vice Chairman of the Board. The Board may also appoint one or more assistant vice presidents, assistant secretaries and assistant treasurers. One person may hold two positions with the exception that the office of the President and Secretary may not be held by the same person. The primary officers serving as of December 31, 2020, were as follows:

| <u>Name</u> | <u>Title</u> |
|--------------------------|------------------------------------------------------|
| Michael David Price | Chairman of the Board |
| Christopher Jordan Flatt | President and Chief Executive Officer |
| Brian Greenspan | Statutory Controller and Senior Vice President |
| Elias Farid Habayeb | Chief Financial Officer and Executive Vice President |
| Tanya Evelyn Kent | Secretary |
| Justin Caulfield | Treasurer and Vice President |

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including approval of investment transactions as required by 18 *Del. C.* § 1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination as required by 18 *Del. C.* § 4919.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The following is an abbreviated organizational chart of the insurance holding company system as of December 31, 2020, followed by a summary of significant affiliated agreements:

| <u>Company</u> | <u>Domicile</u> |
|-----------------------------------------------------------------------|-----------------|
| American International Group, Inc. | Delaware |
| Blackboard U.S. Holdings, Inc. | Delaware |
| Blackboard Customer Care Insurance Services, LLC | Delaware |
| Blackboard Services, LLC | Delaware |
| Blackboard Specialty Insurance Company | Delaware |
| Blackboard Insurance Company | Delaware |
| AIG Property Casualty, Inc. | Delaware |
| AIG Property Casualty U.S., Inc. | Delaware |
| Attune Holdings, LLC ¹ | Delaware |
| Attune Insurance Services, LLC ¹ | Delaware |
| AIG Assurance Company ² | Illinois |
| AIG Property Casualty Company ² | Illinois |
| AIG Specialty Insurance Company ² | Illinois |
| AIU Insurance Company ² | New York |
| American Home Assurance Company ² | New York |
| Commerce and Industry Insurance Company ² | New York |
| Granite State Insurance Company ² | Illinois |
| Illinois National Insurance Co. ² | Illinois |
| Lexington Insurance Company ² | Delaware |
| National Union Fire Insurance Company of Pittsburgh, Pa. ² | Pennsylvania |
| New Hampshire Insurance Company ² | Illinois |
| The Insurance Company of the State of Pennsylvania ² | Illinois |
| Eaglestone Reinsurance Company | Pennsylvania |
| Western World Insurance Company | New Hampshire |
| Tudor Insurance Company | New Hampshire |
| Stratford Insurance Company | New Hampshire |

¹Attune Holdings, LLC (Attune Holdings) is a joint venture owned 33.34% by AIG Property Casualty U.S., Inc. Attune Holdings owns Attune Insurance Services, LLC (Attune Services), a Managing General Agent (MGA) for BIC with a technology-enabled platform. Other owners of Attune Holdings include affiliates of Two Sigma Investments, LP and affiliates of HIG.

²Entities are participants to an intercompany reinsurance pooling agreement whereby each participant cedes all direct and assumed business (except for certain business) to National Union Fire Insurance Company of Pittsburgh, Pa. (NUFIC). In turn, each participant then assumes its percentage share of the pooled business as specified in the agreement.

Agreements with Affiliates

The following is a summary of the Company's significant affiliated agreements in force as of December 31, 2020:

Management and Service Agreement

Effective October 1, 2017, the Company entered into a Service and Expense Agreement with AIG and its affiliates by amendment to the original agreement which was effective February 1, 1974. AIG and its subsidiaries have agreed to provide at cost, services and facilities as required to the named parties to this agreement, which include legal, investment, electronic data processing, internal audit, actuarial, claims, underwriting, accounting, tax and employee benefits.

Investment Advisory Agreement

Effective February 1, 2020, the Company entered an investment advisory agreement with AIG Asset Management U.S., LLC (Manager). In accordance with the agreement, the Company appointed the Manager to provide investment management and advisory services in respect of one or more portfolios of cash, securities, loans, derivatives, real estate and/or other investments or assets delivered or assigned to the Manager. In turn, the Manager receives fees for services rendered as defined in the contract.

Tax Allocation Agreement

Originally effective January 1, 2017, and last amended effective January 1, 2018, the Company is party to a tax sharing agreement with AIG. In accordance with the agreement, taxes are recognized and computed on a separate company basis. To the extent the Company's net operating losses, tax credits or net capital losses are utilized on a consolidated basis, the Company receives a refund based upon the amount of the deduction and credits utilized in the consolidated federal income tax return.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the State of Delaware as a domestic surplus lines insurer. Upon its acquisition by AIG in 2017, the Company decided to exit its then existing non-admitted

underwriting operations. The Company proceeded during the 2017 and 2018 calendar years to terminate its relationship with the general agencies through which it had been writing other non-admitted products. The Company's remaining operations as of December 31, 2020, relate to administration of the Company's run-off and facilitation of the run-off and active business of BIC, its wholly owned subsidiary.

REINSURANCE

The Company reported the following distribution of gross and net premium written for the years ended December 31, 2020, and the prior examination date of December 31, 2016:

| | 2020 | % of Gross Premium Written | 2016 | % of Gross Premium Written |
|-----------------------------------------|--------------------|----------------------------------|----------------------|----------------------------------|
| Direct business | \$ 393,885 | 100% | \$ 92,473,611 | 100% |
| Reinsurance assumed from affiliates | - | - | - | - |
| Reinsurance assumed from non-affiliates | - | - | - | - |
| Gross premiums written | <u>\$ 393,885</u> | <u>100%</u> | <u>\$ 92,473,611</u> | <u>100%</u> |
| Reinsurance ceded to affiliates | 314,815 | 79.9% | 55,886,448 | 60.4% |
| Reinsurance ceded to non-affiliates | 159,891 | 40.6% | 18,139,760 | 19.6% |
| Total ceded | <u>\$ 474,706</u> | <u>120.5%</u> | <u>\$ 74,026,208</u> | <u>80.1%</u> |
| Net premiums written | <u>\$ (80,821)</u> | <u>-20.5%</u> | <u>\$ 18,447,403</u> | <u>19.9%</u> |

The Company's reinsurance program consists of both affiliated and a third party ceded reinsurance arrangements designed to limit the Company's exposure to certain levels of risk or for other strategic purposes. The following is a summary of the Company's affiliated and unaffiliated reinsurance programs as of December 31, 2020.

Affiliated Ceded Reinsurance

Effective October 1, 2017, the Company entered an 85% quota share reinsurance treaty and a stop loss reinsurance treaty with NUFIC. Effective January 1, 2019, the before mentioned

quota share agreement was amended to increase NUFIC's quota share percentage from 85% to 100% on a go-forward basis.

Third Party Ceded Reinsurance

The Company is party to a 100% quota share reinsurance agreement with TIG, whereby TIG assumes all insurance and reinsurance assets and liabilities of the Company incurred prior to and inclusive of October 6, 2014. This agreement coincides with the acquisition of the Company by HUS and the business ceded is referred to as the Blackboard Legacy Portfolio. The Company retains certain rights to third party reinsurance agreements assigned to TIG in relation to the Blackboard Legacy Portfolio, however, the Company's NAIC reporting only reflects the cession to TIG and other reinsurance contracts entered on or after the October 6, 2014.

In respect to business written in policy years 2015 and subsequent, the Company maintains multiple reinsurance agreements with various third-party reinsurance companies. These arrangements were entered in the normal course of business for strategic purposes and/or whereby the Company seeks to reduce the potential amount of loss arising from claims events.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2020
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2020
- Statement of Income for the Year Ended December 31, 2020
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2016 to December 31, 2020

Statement of Assets
As of December 31, 2020

| | Ledger <u>Assets</u> | Nonadmitted <u>Assets</u> | Net Admitted <u>Assets</u> |
|-------------------------------------------------------------------|-------------------------|------------------------------|-------------------------------|
| Bonds | \$ 9,728,316 | \$ - | \$ 9,728,316 |
| Common stocks | 14,511,461 | - | 14,511,461 |
| Cash | 3,305,661 | - | 3,305,661 |
| Cash equivalents | 6,729,921 | - | 6,729,921 |
| Investment income due and accrued | 33,890 | - | 33,890 |
| Uncollected premiums and agents' balances in course of collection | 50,412 | - | 50,412 |
| Amounts recoverable from reinsurers | 14,376,158 | - | 14,376,158 |
| Current federal tax recoverable | 1,790,578 | - | 1,790,578 |
| Aggregate write-ins for other than invested assets | <u>1,600,000</u> | <u>1,600,000</u> | <u>-</u> |
| Total assets | <u>\$ 52,126,397</u> | <u>\$ 1,600,000</u> | <u>\$ 50,526,397</u> |

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2020

| | | <u>Notes</u> |
|----------------------------------------------------------------------|---------------|--------------|
| Losses | \$ 5,042,358 | 1 |
| Loss adjustment expenses | 5,291,161 | 1 |
| Commission payable, contingent commissions and other similar charges | 519,369 | |
| Taxes, licenses and fees | 257,498 | |
| Unearned premiums | 46,080 | |
| Ceded reinsurance premiums payable | 2,720,680 | |
| Provision for reinsurance | 9,360 | |
| Payable to parent, subsidiaries and affiliates | 3,920,669 | |
| Aggregate write-ins for liabilities | (1,271,872) | |
| Total liabilities | \$ 16,535,303 | |
| | | |
| Common capital stock | \$ 4,200,000 | |
| Gross paid in and contributed surplus | 123,332,702 | |
| Unassigned funds (surplus) | (93,541,608) | |
| Total surplus as regards policyholders | \$ 33,991,094 | |
| | | |
| Total liabilities, capital and surplus | \$ 50,526,397 | |

Statement of Income
For the Year Ended December 31, 2020

| | | |
|--------------------------------------------------------------|--------|---------------------------|
| Premiums earned | \$ | (66,925) |
| DEDUCTIONS: | | |
| Losses incurred | \$ | 1,926,425 |
| Loss adjustment expenses incurred | | 258,623 |
| Other underwriting expenses incurred | | 2,859,137 |
| Total underwriting deductions | \$ | <u>5,044,185</u> |
| Net underwriting gain or (loss) | \$ | <u>(5,111,110)</u> |
| INVESTMENT INCOME: | | |
| Net investment income earned | \$ | 238,231 |
| Net realized capital gains or (losses) | | 25,322 |
| Net investment gain or (loss) | \$ | <u>263,553</u> |
| OTHER INCOME (LOSS): | | |
| Net gain (loss) from agents' or premium balances charged off | \$ | 649,749 |
| Aggregate write-ins for miscellaneous income | | (300) |
| Total other income | \$ | <u>649,449</u> |
| Net income before federal income taxes | \$ | <u>(4,198,108)</u> |
| Federal and foreign income taxes incurred | | <u>(1,517,154)</u> |
| Net income | \$ | <u><u>(2,680,954)</u></u> |

Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2016 to December 31, 2020

| | Common Capital Stock | Aggregate Write- ins for Other Than Special Surplus Funds | Gross Paid In & Contributed Surplus | Unassigned Funds (Surplus) | Total |
|----------------------------------------|-------------------------|--------------------------------------------------------------------|-------------------------------------------|-------------------------------|----------------------|
| December 31, 2016 | \$ 4,200,000 | \$ - | \$ 84,492,871 | \$ (38,494,812) | \$ 50,198,059 |
| 2017 Aggregate Write-in | - | 1,200,000 | - | - | 1,200,000 |
| 2017 Capital Contribution | - | - | 40,780,000 | - | 40,780,000 |
| 2017 Net Income (loss) | - | - | - | (16,186,224) | (16,186,224) |
| 2017 Unrealized Gain (loss) | - | - | - | 20,812,525 | 20,812,525 |
| 2017 Other Changes ¹ | - | - | - | (5,737,184) | (5,737,184) |
| December 31, 2017 | <u>\$ 4,200,000</u> | <u>\$ 1,200,000</u> | <u>\$ 125,272,871</u> | <u>\$ (39,605,695)</u> | <u>\$ 91,067,176</u> |
| 2018 Aggregate Write-in | - | (1,200,000) | - | 640,082 | (559,918) |
| 2018 Capital Contribution | - | - | 11,000,000 | - | 11,000,000 |
| 2018 Quasi-reorganization ² | - | - | (47,940,169) | 47,940,169 | - |
| 2018 Net Income (loss) | - | - | - | (18,476,826) | (18,476,826) |
| 2018 Unrealized Gain (loss) | - | - | - | (17,947,866) | (17,947,866) |
| 2018 Other Changes ¹ | - | - | - | 5,625,067 | 5,625,067 |
| December 31, 2018 | <u>\$ 4,200,000</u> | <u>\$ -</u> | <u>\$ 88,332,702</u> | <u>\$ (21,825,069)</u> | <u>\$ 70,707,633</u> |
| 2019 Capital Contribution | - | - | 15,000,000 | - | 15,000,000 |
| 2019 Net Income (loss) | - | - | - | (5,714,607) | (5,714,607) |
| 2019 Unrealized Gain (loss) | - | - | - | (45,440,592) | (45,440,592) |
| 2019 Other Changes ¹ | - | - | - | (35,527) | (35,527) |
| December 31, 2019 | <u>\$ 4,200,000</u> | <u>\$ -</u> | <u>\$ 103,332,702</u> | <u>\$ (73,015,795)</u> | <u>\$ 34,516,907</u> |
| 2020 Capital Contribution | - | - | 20,000,000 | - | 20,000,000 |
| 2020 Net Income (loss) | - | - | - | (2,680,954) | (2,680,954) |
| 2020 Unrealized Gain (loss) | - | - | - | (17,893,112) | (17,893,112) |
| 2020 Other Changes ¹ | - | - | - | 48,253 | 48,253 |
| December 31, 2020 | <u>\$ 4,200,000</u> | <u>\$ -</u> | <u>\$ 123,332,702</u> | <u>\$ (93,541,608)</u> | <u>\$ 33,991,094</u> |

¹Other Changes in Unassigned Funds (Surplus) for each year may include change in net deferred income taxes, change in non-admitted assets and change in aggregate write-ins for gains and losses in surplus.

²The Company performed a quasi-reorganization under the rules set forth in SSAP No. 72 – *Surplus and Quasi-Reorganizations* whereby its financial statements were restated such that negative unassigned funds were netted down against gross paid in and contributed surplus. The adjustment did not affect the Company’s overall surplus as regards policyholders.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

The following is a summary of adjustments to the Company's financial statements acknowledged during this examination.

As reflected in the Company's 2020 statutory audit report issued by PwC, the Company identified corrections to its reported 2020 NAIC Annual Statement that resulted in after-tax statutory adjustments to decrease capital and surplus as regards policyholders in the amount of approximately \$104,000. The adjustments are primarily the result of accounting errors in the Company's reinsurance program. Control issues contributing to these errors are in the process of remediation as of the issuance of this examination report. The impact of these corrections on surplus, assets and liabilities as of December 31, 2020, are summarized as follows:

| Adjustments ¹ | Policyholders Surplus | Total Admitted Assets | Total Liabilities |
|-------------------------------------------|--------------------------|--------------------------|-----------------------|
| Balance reported as of December 31, 2020 | \$ 33,991,094 | \$ 50,526,397 | \$ 16,535,303 |
| Adjustments to reported balances: | | | |
| Asset corrections | (4,184,000) | (4,184,000) | - |
| Liability corrections | 4,080,000 | - | (4,080,000) |
| Total adjustment to reported balances | <u>\$ (104,000)</u> | <u>\$ (4,184,000)</u> | <u>\$ (4,080,000)</u> |
| Balance at December 31, 2020, as adjusted | <u>\$ 33,887,094</u> | <u>\$ 46,342,397</u> | <u>\$ 12,455,303</u> |

¹The reconciliation above reflects the impact of adjustments to the Company's reported cash, reinsurance recoverables, reinsurance payables, receivables/payables from/to related parties, losses and losses incurred as of December 31, 2020.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

| | |
|--------------------------|-------------|
| Losses | \$5,042,358 |
| Loss Adjustment Expenses | 5,291,161 |

The Department retained the actuarial services of INS Consultants Inc. (Consulting Actuary) to perform a risk-focused review of the Company's significant reserving activities. The Consulting Actuary assisted in review of the inherent risks, management oversight and other

mitigating controls over the Company's actuarial processes and procedures. The Consulting Actuary performed an independent reserve analysis including an assessment of the Company's reserves for compliance with applicable *Actuarial Standards of Practice* and the NAIC *Accounting Practices and Procedures Manual*.

SUBSEQUENT EVENTS

Subsequent events were evaluated through the date that this examination report was available to be issued. Based on this evaluation, the following significant transactions or events were deemed material for disclosure in this examination report.

Related Party Claims Service Agreement

Effective March 26, 2021, the Company became party to a claims service agreement with AIG Claims, Inc. (AIG Claims) and multiple affiliates as specified in the contract that was originally effective July 15, 2012. In accordance with the agreement, AIG Claims provides claims administrative services on behalf of the Company and other participants. In turn, AIG Claims allocates costs incurred in relation to the services and functions provided to the Company.

Related Party Reinsurance Agreement

Effective August 1, 2021, the Company and NUFIC entered an Adverse Development Excess of Loss Reinsurance Agreement. In accordance with the agreement, NUFIC agreed to indemnify the Company for 100% of its ultimate net loss paid over and above the Company's retention of \$10.33 million subject to \$25 million limit. In return, the Company agreed to pay NUFIC a single premium as specified in the agreement.

Capital Contributions

The Company received a capital contribution in the amount of \$10 million from BUS on December 21, 2021. The Company provided capital contributions totaling \$9 million to BIC

during 2021. The capital contributions were paid to BIC in the amounts of \$2 million and \$7 million on September 30, 2021 and December 21, 2021, respectively.

Sale of Attune Holdings

AIG's investment in Attune Holdings was sold to a third party in September 2021. Prior to the sale, Attune Services made arrangements to transfer business produced by BIC to another insurer. As a result, BIC began non-renewing the business produced by Attune Services.

SUMMARY OF RECOMMENDATIONS

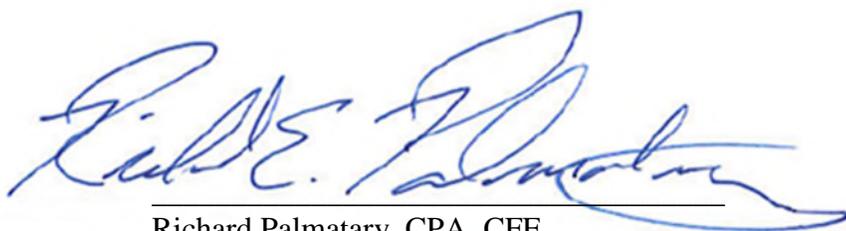
There were no recommendations as a result of this examination.

The assistance of Department's Consulting Actuary is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, PwC and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



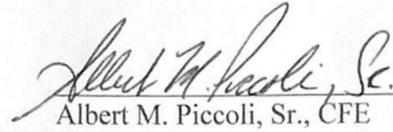
Albert M. Piccoli, Sr., CFE
Examiner In-Charge
Delaware Department of Insurance



Richard Palmatary, CPA, CFE
Supervising Examiner
Delaware Department of Insurance

Blackboard Specialty Insurance Company

I, Albert M. Piccoli, Sr., hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Certification No. 21.003.


Albert M. Piccoli, Sr., CFE